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RUEHXR/RWANDA COLLECTIVE  
RUEHBS/USEU BRUSSELS

UNCLAS NAIROBI 000178

STATE ALSO FOR AF/E AND AF/EPS

STATE PASS USAID/EA

STATE PASS USITC FOR ALAN TREAT, RALPH WATKINS, AND ERLAND  
HERFINDAHL

TREASURY FOR REBECCA KLEIN

COMMERCE FOR BECKY ERKUL

SIPDIS

E.O. 12958: N/A

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PTER, KCOR, KE

SUBJECT: KENYA ECONOMIC HIGHLIGHTS: FEBRUARY 2009

REFS: A) Nairobi 119 B) 08 Nairobi 2897

This cable is not/not for internet distribution.

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[1](#)1. (SBU) KENYA STRUGGLES WITH GROWING DEFICITS

Tax revenues fell \$113m short of the GOK's mid-FY08/09 target. Due to the global crisis, there is little prospect for more robust collection during the remainder of the fiscal year. The conventional wisdom here is that the GOK will almost certainly slash much-needed infrastructure spending. To mitigate the degree of cuts to capital expenditures, the new Finance Minister, Uhuru Kenyatta, recently announced the sale of \$234m in infrastructure bonds. Media reports FinMin PermSec Joseph Kinyua assuring investors that proceeds from the bonds will remain tied to designated projects.

However, a contact familiar with the bond floatation process told us January 30 that Kenyatta's and Kinyua's comments are misleading. In fact, the proceeds from the bond sale -- and interest payments to buyers -- are not linked to specific projects. "This is not an infrastructure bond, but rather a routine bond issuance; this may not even be clear to Ministry of Finance officials," our contact said. He believes the bond will actually be used to service the government's KSh127 billion budget deficit. Comment: Kenya's investment climate, already severely damaged by corruption (septel) and poor infrastructure, can ill afford the perception of more government foul play. End Comment.

[1](#)2. (SBU) TEACHERS CALL OFF STRIKE

The Kenya National Union of Teachers backed off its demand for a lump sum 26% pay increase and accepted a government plan to phase in the raise in three stages over two years. The government promised to adjust the phase in period to two stages over two years if the Kenyan economy rebounds during the next 12 months. The government further agreed to drop any charges against striking teachers. New Finance Minister Uhuru Kenyatta negotiated the settlement which

ended the strike; he reportedly made clear Kenya's financial problems to union bosses.

Comment: The 11-day strike had parallelized learning for millions of Kenyan primary school children, distracted parliamentarians from work on political reform, and contributed to a sense of unease in the country. We score this as a victory for government, which convinced the union to accept the key elements of its initial proposal (i.e., a 26% raise over an extended phase in period). The message to other unions may be that strikes don't pay real dividends in this economic environment. Ref A provides background on the strike. End comment.

13. (SBU) SEACOM CABLE SET TO LAND JUNE 27, 2009

In a January 28 meeting, Seacom CEO Brian Herlihy updated Ambassador on the progress of the company's undersea fibre optic cable that is now scheduled to land in Kenya on June 27 this year. The cable, which links Kenya, Tanzania, Mozambique, Ethiopia, Madagascar, and South Africa to Europe and India, is expected to bring broadband to East Africa for the first time. Herlihy told the Ambassador that the Kenya portion, including the cable station in Mombasa, is 95% complete. Seacom is scheduling a simultaneous launch in all of the countries involved in mid-July.

Comment: This is good news. Economic growth is severely hampered by the lack of affordable, efficient internet service in Kenya. According to Herlihy, parts of a national fibre optic backbone are in place or about to be in place. In other words, when the cable lands, Kenya should be poised for a relatively quick leap forward in internet technology. End comment.

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